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SUBJECT: GOCR HEALTH CARE REFORM

11. (U) Summary. On July 7, following up on several health care reform proposals by Health Minister Milada Emmerova, the GOCR officially approved specific steps and deadlines for reform implementation. As part of these health care reforms, the government-run health insurance company, VZP (the General Health Insurance Company, will receive CZK 3 billion (Approximately 126 million USD), while the other 8 semi-privately-run health insurance companies would receive CZK 800 million (Approximately 33.7 million USD). In addition, the reform package will increase government payments to health insurance companies for the health care of several population groups, including that of pensioners. VZP has a disproportionately large number of pensioners in comparison with that of the other health insurance companies. The assumption is that the health care system will benefit by CZK 2.3 billion (Approximately 96.78 million USD) as a result. Emmerova also intends to provide health care cost savings through lowering the cost of medicine five to six percent by decreasing the margin of profit that drug companies make with their mark-up on drugs. The proposed reforms do not include patient co-payments, and do not sufficiently address the long term financial consequences of an aging population receiving free health care. End summary.

Czech Health and Health Care:

12. (U) Public health expenditures in the CR are among the highest in the region. Currently, they make up 91.4% of total health expenditures, while in Hungary and Poland they make up 70.2% and 72.4%, respectively. These figures are also well above the World Bank's group average of Europe and Central Asia which are \$151.8 and 65.6%, and the average of upper-middle-income countries at \$309.8 and 57.6%. (Note: According to the World Bank's current classification system, the CR is an upper-middle-income country, as are Poland and Hungary).

13. (U) The Czech health care system operates with nine insurance companies, one of which, VZP, is government-owned, while the rest are semi-private. Employees and employers both contribute to health insurance through payroll taxes, which at 13.5% (in comparison to Poland's 7.75%) were already considered to be relatively high even prior to reform. The increased coverage by the government of the several population groups will also mean that, according to the Czech labor code, private businesses will also be forced to increase their contributions toward their employees, health care insurance.

14. (U) Despite this relatively high tax rate, and the fact that VZP received the largest portion of a common pool of money contributed by all insurers for their populations over 60, the VZP has a current debt of CZK 10 billion (Approximately 420.9 million USD). (Note: Each insurer was contributing approximately 60% of its income. This money was allocated according to the percentage of each insurance company's population over 60. This allocation

increased by 15% in 2005. It is supposed to increase by 100% by 2006.) As previously stated, with the reform VZP will receive CZK 3 billion (Approximately 126 million USD), through the GOCR buying its receivables. Obviously, this will only alleviate less than one-third of the VZP,s debt; however, the GOCR plans to make this a long-term process. The question then becomes whether these reforms are sufficient to reform Czech health care.

Political Background:

15. (U) The CR has been attempting to reform its health care system since 1989; in the past 15 years, there have been 11 health ministers including Emmerova, who was appointed in August 2004. Health care is an extremely sensitive political issue in the CR, particularly in light of the upcoming June 2006 parliamentary elections. As such, the government reforms avoid such unpopular measures as increases in patient co-payments. (Note: Czech Deputy Prime Minister Jahn,s strategy for economic growth supported co-payments to doctors, but this, along with other provisions of the strategy, was rejected by the labor unions and removed.) As Petr Slama, Deputy Minister of Health, stated recently in an interview &co-payments are not on the agenda now(what we plan to do is to push the prices of drugs down.8 Besides these cost issues, the CR also faces a number of quality concerns, many of which stem from financial problems. Among them are a brain drain of doctors and dentists to wealthier countries and the inability of hospitals to meet their patients, medical needs because insurance companies are behind in their payments, resulting in suspension of drug sales to the hospitals. At the end of July, a dispute arose between the insurance companies and hospitals, as to whether the insurance companies owed hospitals more than they had paid them for a specific type of care; the government has announced that the issue will be resolved after its holiday, but the hospitals have stated that without payment, they will have to make cuts that will affect patients, quality of care.

Management Reform:

16. (U) Reforms in management, particularly at VZP, continue to be a major concern for critics of the health-care system and Emmerova,s health care proposal. One of the arguments made is that, with the reallocation of monies away from other health insurance companies to VZP, VZP has an unfair advantage. Nor do critics think such redistribution will be sufficient to reform VZP. Jaromir Gajdacek, who heads the Association of Health Insurance Companies CR (SZP CR) recently stated that in order to begin to solve VZP,s debt problems, the state,s indexation would have to increase significantly from 2.3 billion (Approximately 96.78 million USD) or 12 crowns (Approximately 50 cents) per person to 144 crowns (Approximately 6 dollars) per person. VZP is currently undergoing an audit; the ministries that are involved with the audit are not in agreement as to when this audit will be finished. In addition, charges of a conflict of interest have been leveled here: a former member of VZP,s board of directors is involved in the audit. In addition to this, there have been charges of corruption leveled against the head of VZP.

17. (U) According to press reports, the Czech Chamber of Doctors (CLK) is one

of the sharpest critics of VZP and its management. The government is examining making changes to the management of all insurance companies, (in terms of appointment and tenure), in addition to expecting insurance companies to cut their operational costs by 2.5%. Gajdacek does not appear to support reforming how insurance companies are managed in general, even though SZP CR is critical of VZP; rather, he, along with the CLK, are both strongly in favor of increasing patient co-payments. The main opposition party, the ODS also supports this increase, as do pharmaceuticals. But increased co-payments have already been ruled out by the government.

8 . (U) In 2004, the Financial Times reported that, according to Standard & Poor,s, the CR, along with several other countries (Japan, Germany, France, and Poland) may face credit rating difficulties by the 2030s, as their debt grows enormously over the next 45 years (until 2050) without &decisive measures to cut state provision for old age.⁸ The report by Standard & Poor,s gives several possible reasons for such difficulties: enormous growth in life expectancy, a low birth rate, and large amounts of debt. The CR faces all of the above 3 difficulties; the 2004 CR Statistical Office recently reported that men,s life expectancy has increased to 72.5 (from 69 in 2003) and women,s has increased to 79 years (from 77 in 2003). The CR has, at least until recently, also faced low population growth. In 2002, the CR,s total fertility rate was 1.2 children per woman of child-bearing age.

10. (U) Debt is also a relatively new experience for the CR, but is certainly present in the current health care system. Standard & Poor,s conclusions are & based on a model assuming that governments will not adjust their fiscal policies to allow for an increase in the proportion of pension-age population and a concomitant fall in the share of workers(Age-related expenditure is expected to start rising in the mid-2010s and peak in the 2020s.⁸ Indeed, they anticipate that, after Japan, with current spending continuing as it is, the CR would have the most debt of the above-listed countries to deal with.

11. (U) The GOCR has approved several health-care reforms that may be positive in nature, including increasing compensation for health professionals (a move that CLK supports) in a system where, according to press reports, &hundreds of Czech doctors go abroad every month,⁸ even if only temporarily, to earn extra income. (Note: This proposal was not discussed with the union of health care workers; in an interview with POLOFF, the head of the union indicated that they were not supportive of this proposal, as they believed it is not affordable. This seems to be verified by Paroubek,s failing so far to provide the monies to raise wages, though he has under his promise, until September to do so. Some believe this may actually contribute to the problem as well, as hospitals and health insurance companies run up their debts and continue to postpone payments to pay the union,s workers, eventually leaving the state to bail them out-again.) Other proposals under consideration include management reform and cost-cutting by a variety of measures (including by joint purchases of medicines for hospitals; CZK 6 billion in savings (Approximately 252.5 million USD) are estimated, or even merging all of the insurance companies into one, as an attempt to solve the debt and demographic problems of VZP. The government has not approved this measure yet, though PM Paroubek supports it, as does KDU-CSL (the Christian Democrats) and the KSCM (the Communist

Party). The major reforms that have already been approved, however, are unlikely to change much in the Czech health-care system, at least on a permanent basis. Although health insurers support many of the reform measures taken (that is, the government buying their debt, indexation of government payments, the government paying for a portion of certain hospital beds, as well as lowering the medicine margin), the political reasons resulting in the unwillingness to increase the patient co-pay will likely make this reform only a stop-gap measure in the Czech health-care system, even assuming that it passes Parliament. The GOCR does consider these short-term measures, but as it acknowledges in its original healthcare proposal, VZP has had prior financial support from the state. VZP's health is of critical importance to the Czech health care system because it is the insurance company for over half of the Czech population; it was the initial insurance company established after Communism, and much of the population remains with it. Though drug costs are a legitimate concern with an older population, lowering the medicine margin and the reimbursement rates are unlikely to ultimately solve VZP's problems.

15. (U) Comment: The International Association of Pharmaceutical Companies (MAFS), which includes American pharmaceutical companies, is unlikely to be pleased with this reform. While the American Chamber of Commerce believes the Czech health care system needs reform to stabilize its finances, the MAFS, including American pharmaceutical companies, believes that the Czech reimbursement system is already discriminatory in nature, favoring the local generic drug producer, Zentiva. Under the Czech reimbursement system, the Ministry of Finance determines the maximum price of drugs, while the Ministry of Health determines the maximum amount of the drug price that can be reimbursed. Reimbursement levels are usually set by the price of the lowest-priced (typically generic) drug, though other drugs may be partly reimbursed. Patients make up the difference between the reimbursement level and the cost of the drug. While maximum price setting is important, reimbursement levels are what have increasingly drawn the pharmaceutical industry's anger; lower reimbursement rates naturally favor lower-cost, typically generic, drugs, hurting American drug companies, profits, as will the new decrease in the medicine margin. There is no indication that the reform proposal will alleviate the concerns of the pharmaceutical companies, and, in fact, may have the potential to worsen their situation. End comment.

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